

## Boston Beer Company (SAM)

**\$817.82** (As of 08/03/20)

Price Target (6-12 Months): **\$940.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Outperform**

(Since: 06/22/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**1-Strong Buy**

Zacks Style Scores:

VGM:D

Value: F

Growth: A

Momentum: F

### Summary

Boston Beer outpaced the industry in the past three months, courtesy of earnings and sales beat in second-quarter 2020 on strong shipments and depletions growth. This marked the ninth straight quarter of double-digit depletions growth, backed by strength in Truly Hard Seltzer, Twisted Tea and the Dogfish Head brands. It expects investing heavily in the Truly brand to enhance the brand's position in the hard seltzer category as competition continues to increase. It foresees increased brand investments in the second half of 2020 compared to the first half, and expects accelerated distribution and volume growth for the Truly, Twisted Tea and Dogfish Head brands. However, significant reduction in keg demand from the on-premise channel, higher productions costs, and increased labor and safety-related costs at its breweries are hurting gross margin.

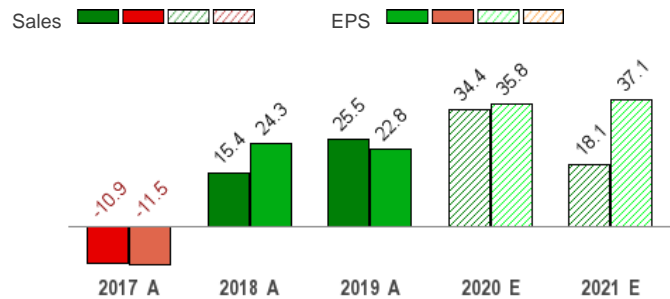
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$845.70 - \$290.02
20 Day Average Volume (sh)	202,596
Market Cap	\$10.0 B
YTD Price Change	116.4%
Beta	1.02
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Beverages - Alcohol</a>
Zacks Industry Rank	Top 30% (77 out of 254)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	113.2%
Last Sales Surprise	8.0%
EPS F1 Est- 4 week change	24.8%
Expected Report Date	11/03/2020
Earnings ESP	0.0%
P/E TTM	75.5
P/E F1	65.7
PEG F1	6.6
P/S TTM	6.7

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	407 E	534 E	639 E	493 E	1,984 E
2020	331 A	452 A	515 E	382 E	1,680 E
2019	252 A	318 A	378 A	301 A	1,250 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.96 E	\$5.42 E	\$8.59 E	\$3.00 E	\$17.07 E
2020	\$1.32 A	\$4.69 A	\$3.58 E	\$1.71 E	\$12.45 E
2019	\$1.87 A	\$2.34 A	\$3.58 A	\$1.24 A	\$9.17 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/03/2020. The reports text is as of 08/04/2020.

## Overview

Founded by Jim Koch, Harry M. Rubin, and Lorenzo Lamadrid in Boston, MA in 1984, Boston Beer Co. Inc. is one of the largest craft brewers in the United States. Boston Beer produces beer, malt beverages, and cider products at company-owned breweries and under contract. The company sells alcoholic beverages in the United States, Canada, Europe, Israel, Australia, New Zealand, the Caribbean, the Pacific Rim, Mexico, and Central and South America through a formidable network of wholesale distributors.

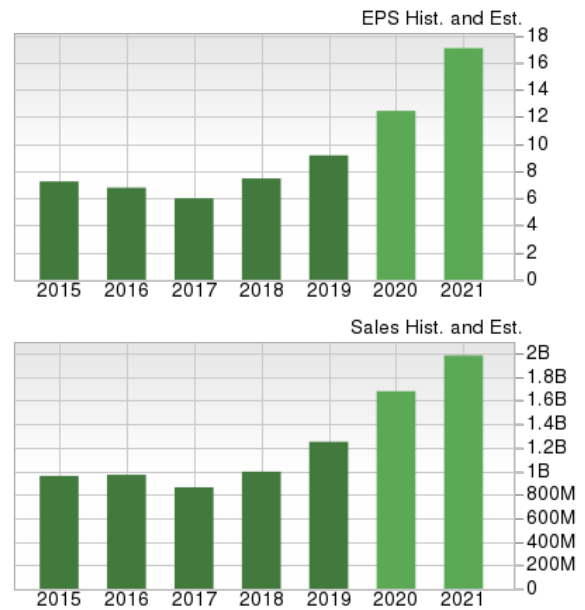
Boston Beer has four company-owned breweries, namely **Boston Brewery** located at Boston, MA; **Cincinnati Brewery** at Cincinnati, OH; **Pennsylvania Brewery** at Breinigsville, PA; and **Angel City Brewery** at Los Angeles, CA.

The company produces and sells three types of alcoholic beverages:

**Beer:** The company's beer products are primarily positioned in the "Better Beer" category of the beer industry, which includes craft beers, domestic specialty beers and imported beers. The category is decided on the basis of premium price, quality, image and taste. The company is known for its Samuel Adams Boston Lager or Sam Adams Boston Lager beer brands under which it sells about 60 different types of beers. Alongside, the company sells 20 beers of various other brands.

**Malt Beverages:** Apart from producing beer, the company also produces a malt beverage known as Twisted Tea which contains Iced Tea and alcohol.

**Cider:** The company sells alcoholic ciders under the Angry Orchard brand.



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## Reasons To Buy:

▲ **Q2 Earnings & Sales Beat:** Shares of Boston Beer have gained 68.4% in the past three months compared with the industry's growth of 17.1%. The uptrend can be attributed to robust performance in second-quarter 2020, despite impacts from the coronavirus outbreak. Boston Beer's top and bottom line beat the Zacks Consensus Estimate and improved year over year in second-quarter 2020. Despite impacts of the coronavirus outbreak in early March, its business saw significant growth in the second quarter. Earnings benefited from strong sales growth, offset by soft gross margin and higher operating expenses. Meanwhile, top line gained from robust shipments and depletion growth in the quarter.

Boston Beer witnesses accelerated growth for the Truly Twisted Tea and Dogfish Head brands. Growth at Truly was led by solid trends at Truly Hard Lemonade, which is likely to continue.

▲ **Strong Shipments & Depletions:** Boston Beer's shipments advanced 39.8% year over year to 1.9 million barrels in second-quarter 2020. Excluding the addition of the Dogfish Head brand, beginning Jul 3, 2019, shipments increased 35.3%. Depletions grew 46%, including a 42% rise from Boston Beer legacy brands and 4% from the addition of the Dogfish Head brand. This marked the ninth successive quarter of double-digit growth in depletions, backed by strength in Truly Hard Seltzer and Twisted Tea brands, along with the Dogfish Head brand. This was somewhat offset by sluggishness in Samuel Adams and Angry Orchard brands. Depletions for the year-to-date period through the 28 weeks ended Jul 11, 2020, have grown nearly 42% from that witnessed in the year-ago period. Excluding the Dogfish Head brewery, depletions grew 37%.

▲ **Robust Outlook:** Boston Beer has issued 2020 guidance on the back of depletions and shipment growth as well as solid performance in Truly and Twisted Tea brands. Moreover, it is on track to reopen its store locations with increased focus on outdoor service and takeout. For 2020, management envisions earnings of \$11.70-\$12.70 per share. Also, depletions and shipments are likely to grow 27% and 35%, respectively, wherein the addition of the Dogfish Head brand is expected to contribute 1-2%.

▲ **Truly & Twisted Tea Brands Hold Potential:** Boston Beer has been lately witnessing robust trends for the Truly and Twisted Tea brands, which is driving depletions. In the second quarter, the company witnessed accelerated depletions growth for the Truly, Twisted Tea and Dogfish Head brands. The growth at Truly was led by the Truly Hard Lemonade, which is witnessing solid trends with the momentum likely to continue. It expects to continue investing heavily in the Truly brand to enhance the brand's position in the hard seltzer category as competition continues to increase. Moreover, it is optimistic about the new Truly advertising campaign that showcases colors, variety, and joy to hard seltzer drinkers through four different ads. Further, the Twisted Tea brand continues to generate double-digit volume growth rates that are well above full year 2019 trends. Management foresees increased brand investments in the second half of 2020 as compared to the first half, and expects accelerated distribution and volume growth for the Truly, Twisted Tea and Dogfish Head brands.

▲ **Strategic Initiatives:** Boston Beer remains committed to the three-point growth plan focused on the revival of its Samuel Adams and Angry Orchard brands, cost-saving initiatives and long-term innovation. Firstly, it plans to revive the Samuel Adams brand through packaging, innovation, promotion and brand communication initiatives. Further, it remains keen on retaining Angry Orchard and Twisted Tea's momentum while ensuring Truly Spiked & Sparkling's leadership position in the hard sparkling-water category. Secondly, the company is focused on accelerated cost savings and efficiency projects with savings directed for further brand development. Its third priority is long-term innovation and maximizing the shareholder value. Boston Beer remains optimistic about the future of craft beer and cider categories.

▲ **Financial Stability & Shareholder Returns:** Boston Beer's balance sheet is reasonably healthy, indicating that its cash position should be able to fund strategic investments. As of Jun 27, 2020, the company's cash and cash equivalents declined sequentially to \$86.7 million. Additionally, it had \$150 million in its line of credit for use to enhance the cash position and liquidity amid the coronavirus pandemic, at the end of the second quarter. Notably, the company had no short term debt obligations.

During the second quarter, and the period between Jun 28 and Jul 18, Boston Beer did not repurchase shares in order to preserve liquidity. As a result, the company has \$90.3 million remaining under the \$931-million share buyback authorization.

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## Risks

- **Margins Remain Soft:** Although top and bottom lines remained robust in the second quarter, the company witnessed a decline in gross margin due to elevated processing costs, stemming from higher production at third-party breweries, which increased production costs. This has been a major headwind over the past few quarters. Further, higher prices and costs at company-owned breweries hurt gross margin. Consequently, gross margin contracted 350 basis points to 46.4% in the second quarter. Going forward, the company is making efforts to recover its supply-chain operations, which will remain pressurized in the second half of the year. It expects additional costs due to increased usage of third-party breweries to meet consumers' growing demand, which is likely to hurt margins in 2020. Gross margin is anticipated to be 46-48% in 2020.
  - **Impacts of Coronavirus Pandemic:** As a result of the pandemic, Boston Beer has been witnessing a significant reduction in keg demand from the on-premise channel, and higher labor and safety-related costs at its breweries. In second-quarter 2020, it recorded nearly \$4.1 million of coronavirus-related pre-tax reductions in net revenues and increases in other costs. This included \$5.8 million related to reduced revenues due to keg returns from distributors and retailers and \$8.3 million of other COVID-19-related costs, of which \$5.6 million was recorded in cost of goods sold and \$2.7 million in operating expenses. Further, COVID-19-related safety measures led to the reduction in internal capacity, shifting more volumes to third-party breweries. As already stated, this resulted in higher production costs and negatively impacted gross margin.
  - **Higher Operating Costs:** Higher advertising, promotional and selling expenses along with increased general and administrative costs remain a threat to the company's overall profitability. In second-quarter 2020, advertising, promotional and selling expenses rose 6.7% driven by higher investments in media and production; expenses related to the inclusion of Dogfish Head brand beginning Jul 3; higher salaries and benefits costs; and increased freight to distributors due to higher volumes. Moreover, general and administrative expenses increased 11% on increase in salaries and benefits costs as well as the addition of Dogfish Head's general and administrative expenses beginning Jul 3, 2019. In 2020, advertising, promotional and selling expenses are forecasted to be \$70-\$80 million.
  - **Softness in Samuel Adams & Angry Orchard Brands:** Soft volume for Boston Beer's Samuel Adams (craft beer) and Angry Orchard brands have been key headwind, which is weighing on the overall volumes, depletions growth as well as the top line. These brands are struggling due to softening of the craft beer growth rates and increased choices for drinkers on retail shelves. Although Samuel Adams Boston Lager and Angry Orchard Crisp Apple have recorded double-digit growth in the off-premise channels in the second quarter, overall Samuel Adams and Angry Orchard's volumes remained drab due to COVID-19-related impacts. Moreover, the company expects Samuel Adams and Angry Orchard's volumes to decline for the rest of the year, given the store closures.
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## Last Earnings Report

### Boston Beer Q2 Earnings Beat, Sales Up Y/Y

Boston Beer Company reported upbeat second-quarter 2020 results, wherein top and bottom lines beat estimates and increased year over year. Despite impacts of the coronavirus outbreak in early March, its business saw significant growth in the second quarter. Boston Beer's second-quarter adjusted earnings of \$4.69 per share surpassed the Zacks Consensus Estimate of \$2.20. Further, the bottom line grew almost two folds from \$2.34 earned in the year-ago period, mainly driven by an increase in revenues on the back of shipment growth to the tune of 39.8%. This was partly offset by dismal gross margins and a rise in operating expenses.

Quarter Ending **06/2020**

Report Date	Jul 23, 2020
Sales Surprise	7.98%
EPS Surprise	113.18%
Quarterly EPS	4.69
Annual EPS (TTM)	10.83

The company has been witnessing a significant reduction in keg demand from the on-premise channel, and higher labor and safety-related costs at its breweries, as a result of the ongoing pandemic. In second-quarter 2020, it recorded nearly \$4.1 million of coronavirus-related pre-tax reductions in net revenues and increases in other costs. This included \$5.8 million related to reduced revenues due to keg returns from distributors and retailers and \$8.3 million of other COVID-19-related costs, of which \$5.6 million was recorded in cost of goods sold and \$2.7 million in operating expenses. Further, COVID-19-related safety measures led to the reduction in internal capacity, shifting more volumes to third-party breweries. This resulted in higher production costs and negatively impacted gross margin.

Net revenues advanced 42% year over year to \$481.1 million and exceeded the Zacks Consensus Estimate of \$419 million. Excluding excise taxes, the top line rose 42% year over year from \$452.1 million. The increase in the top line can primarily be attributed to a 39.8% improvement in shipments to 1.9 million barrels. Excluding the addition of the Dogfish Head brand, beginning Jul 3, 2019, shipments increased 35.3%. Depletions grew 46%, including a 42% rise from Boston Beer legacy brands and 4% from the addition of the Dogfish Head brand. This marked the ninth successive quarter of double-digit growth in depletions, backed by strength in Truly Hard Seltzer and Twisted Tea brands along with, the Dogfish Head brand. This was somewhat offset by sluggishness in Samuel Adams and Angry Orchard brands.

Depletions for the year-to-date period through the 28 weeks ended Jul 11, 2020, have grown nearly 42% from that witnessed in the year-ago period. Excluding the Dogfish Head brewery, depletions grew 37%.

### Costs & Margins

Gross profit improved 31.8% year over year to \$209.6 million. However, gross margin contracted 350 basis points to 46.4% due to elevated processing costs, stemming from higher production at third-party breweries. Further, higher prices and cost savings at company-owned breweries hurt gross margin.

Advertising, promotional and selling expenses rose 6.7% in the quarter to \$100.3 million. The increase was driven by higher investments in media and production; expenses related to the inclusion of Dogfish Head brand beginning Jul 3; higher salaries and benefits costs; and increased freight to distributors due to higher volumes. On the flip side, reduced investments in local marketing and national promotions acted as deterrents. General and administrative expenses totaled \$29.7 million, up 11% from the year-ago quarter. The increase was mainly driven by higher salaries and benefits costs as well as the addition of Dogfish Head's general and administrative expenses beginning Jul 3, 2019. This was somewhat offset by a one-time cost of \$1.5 million related to the Dogfish Head transaction, which was incurred in the second quarter of 2019.

### Financials

As of Jun 27, 2020, Boston Beer had cash and cash equivalents of \$86.7 million and total stockholders' equity of \$827.5 million. The company currently has \$150 million in its line of credit for use to enhance the cash position and liquidity amid the coronavirus pandemic. During the second quarter and the period between Jun 28 and Jul 18, Boston Beer did not repurchase shares. As a result, the company has \$90.3 million remaining under the \$931-million share buyback authorization.

### Outlook

Management foresees increased investments in the second half of 2020 as compared to the first half, along with accelerated growth in Truly, Twisted Tea and Dogfish Head brands. Notably, the Truly Hard Lemonade is witnessing solid growth and expected to continue this momentum. During the second quarter, Samuel Adams Boston Lager and Angry Orchard Crisp Apple have recorded double-digit growth in the off-premise channels. However, overall Samuel Adams and Angry Orchard's volumes remained drab due to COVID-19-related impacts and are projected to decline for the rest of the year, given the store closures. That said, it is on track to reopen its store locations with increased focus on outdoor service and takeout.

Further, the company is making efforts to recover its supply-chain operations, which will remain pressurized in the second half of the year. Apart from these, higher usage of third-party breweries to meet consumers' growing demand are likely to lead to additional costs, which might weigh on margins in 2020. Going ahead, Boston Beer has issued 2020 guidance on the back of depletions and shipment growth as well as solid performance in Truly and Twisted Tea brands.

For 2020, management envisions the bottom line to be \$11.70-\$12.70 per share. Also, depletions and shipments are likely to grow 27% and 35%, respectively, wherein the addition of the Dogfish Head brand is expected to contribute 1-2%. Moreover, gross margin is anticipated to be 46-48%. Advertising, promotional and selling expenses are forecasted to be \$70-\$80 million and capital expenditure is likely to be \$180-\$200 million.

## Valuation

Boston Beer shares are up 116.5% in the year-to-date period and nearly 119.1% for the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 22.3% and 8.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 25.9% and 4.3%, respectively.

The S&P 500 index is up 1.5% in the year-to-date period and 15.4% in the past year.

The stock is currently trading at 53.85X forward 12-month earnings, which compares to 25.77X for the Zacks sub-industry, 19.91X for the Zacks sector and 22.62X for the S&P 500 index.

Over the past five years, the stock has traded as high as 63.34X and as low as 19.85X, with a 5-year median of 29.12X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$940 price target reflects 61.9X forward 12-month earnings.

The table below shows summary valuation data for SAM

Valuation Multiples - SAM					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	53.85	25.77	19.91	22.62
	5-Year High	63.34	27.52	22.37	22.62
	5-Year Low	19.85	18.8	16.63	15.25
	5-Year Median	29.12	23.3	19.57	17.55
P/S F12M	Current	5.37	16.02	9.41	3.6
	5-Year High	5.84	20.67	11.15	3.6
	5-Year Low	1.82	13.04	8.1	2.53
	5-Year Median	2.63	17.28	9.89	3.04
EV/EBITDA TTM	Current	41.8	38.37	35.75	12.76
	5-Year High	42.34	55.56	45.91	12.85
	5-Year Low	8.1	29.05	28	8.24
	5-Year Median	14.53	44.61	39.09	10.89

As of 08/03/2020

## Industry Analysis Zacks Industry Rank: Top 30% (77 out of 254)



## Top Peers

Company (Ticker)	Rec	Rank
Pernod Ricard SA (PDRDY)	Outperform	2
BrownForman Corporation (BF.B)	Neutral	3
Craft Brew Alliance, Inc. (BREW)	Neutral	3
AnheuserBusch InBev SANV (BUD)	Neutral	3
Diageo plc (DEO)	Neutral	4
Heineken NV (HEINY)	Neutral	3
Constellation Brands Inc (STZ)	Neutral	3
Molson Coors Beverage Company (TAP)	Neutral	3

Industry Comparison Industry: Beverages - Alcohol				Industry Peers		
	SAM	X Industry	S&P 500	BUD	HEINY	TAP
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	3	3	3
VGM Score	D	-	-	D	B	A
Market Cap	9.99 B	10.66 B	22.67 B	109.75 B	54.55 B	7.97 B
# of Analysts	1	1.5	13.5	2	2	6
Dividend Yield	0.00%	0.00%	1.77%	1.53%	1.93%	0.00%
Value Score	F	-	-	D	B	A
Cash/Price	0.01	0.04	0.07	0.00	0.04	0.10
EV/EBITDA	49.34	9.73	13.08	9.58	10.43	9.35
PEG Ratio	6.57	4.28	2.94	NA	NA	1.91
Price/Book (P/B)	12.07	2.65	3.10	1.61	2.81	0.60
Price/Cash Flow (P/CF)	59.17	16.20	12.34	8.61	10.95	4.29
P/E (F1)	65.69	27.86	21.71	26.75	31.05	11.45
Price/Sales (P/S)	6.70	1.96	2.46	2.30	NA	0.66
Earnings Yield	1.52%	3.33%	4.38%	3.75%	3.21%	8.72%
Debt/Equity	0.00	0.45	0.75	1.55	0.77	0.61
Cash Flow (\$/share)	13.82	1.53	6.94	6.32	4.32	8.59
Growth Score	A	-	-	F	B	B
Hist. EPS Growth (3-5 yrs)	7.99%	7.36%	10.46%	-7.49%	NA	7.18%
Proj. EPS Growth (F1/F0)	35.77%	-5.79%	-7.08%	-50.12%	-37.24%	-29.19%
Curr. Cash Flow Growth	18.44%	-3.06%	5.47%	11.61%	2.45%	-5.29%
Hist. Cash Flow Growth (3-5 yrs)	5.61%	3.18%	8.55%	0.84%	5.02%	11.28%
Current Ratio	1.46	1.46	1.32	1.17	0.68	0.67
Debt/Capital	0.00%	31.20%	44.21%	60.81%	43.57%	37.83%
Net Margin	9.18%	2.55%	10.25%	2.55%	NA	-1.33%
Return on Equity	17.51%	9.22%	14.72%	9.03%	NA	7.18%
Sales/Assets	1.33	0.51	0.52	0.41	NA	0.42
Proj. Sales Growth (F1/F0)	34.39%	0.00%	-1.79%	-17.03%	-16.05%	-7.61%
Momentum Score	F	-	-	A	D	C
Daily Price Chg	0.91%	0.00%	0.27%	0.00%	-1.99%	-1.89%
1 Week Price Chg	-2.16%	0.12%	0.14%	-0.18%	0.75%	2.82%
4 Week Price Chg	47.39%	0.00%	2.96%	2.97%	0.28%	3.22%
12 Week Price Chg	69.98%	6.12%	10.90%	27.38%	15.21%	-4.49%
52 Week Price Chg	119.12%	-6.62%	2.35%	-44.57%	-11.40%	-27.24%
20 Day Average Volume	202,596	28,188	2,043,624	2,015,097	44,283	2,095,170
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	15.30%	0.00%	14.79%
(F1) EPS Est 4 week change	24.81%	0.00%	0.82%	15.30%	0.00%	11.12%
(F1) EPS Est 12 week change	47.42%	3.72%	0.59%	4.63%	-8.68%	7.42%
(Q1) EPS Est Mthly Chg	-12.58%	0.00%	0.25%	41.51%	NA	-12.50%



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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	A
Momentum Score	F
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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### Disclosures

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